

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

MARKET DOMINANT PRODUCT PRICES
INBOUND MARKET DOMINANT MULTI-SERVICE AGREEMENTS
WITH FOREIGN POSTAL OPERATORS 1

HONGKONG POST – UNITED STATES POSTAL SERVICE
BILATERAL AGREEMENT (MC2010-35)
NEGOTIATED SERVICE AGREEMENT

Docket No. R2017-5

**NOTICE OF UNITED STATES POSTAL SERVICE OF TYPE 2 RATE ADJUSTMENT,
NOTICE OF FILING FUNCTIONALLY EQUIVALENT AGREEMENT, AND NOTICE
OF APPLICATION FOR NON-PUBLIC TREATMENT**
(February 10, 2017)

The United States Postal Service (Postal Service) hereby provides this notice (Notice), in accordance with 39 C.F.R. § 3010.40 *et seq.*, of a Type 2 rate adjustment for inbound small packet with delivery scanning items, which results in improvement over default rates established under the Universal Postal Union (UPU) Acts. This Notice concerns the inbound market dominant portion of a Multi-Product Bilateral Agreement with Hongkong Post (Hongkong Post 2017 Agreement), which the Postal Service seeks to include within the Inbound Market-Dominant Multi-Service Agreements with Foreign Postal Operators 1 product in the market dominant product list of the Mail Classification Schedule (MCS).¹

In accordance with Order No. 2148,² the Postal Service explains in this Notice how the Hongkong Post 2017 Agreement that is the subject of this docket is

¹ See PRC, Mail Classification Schedule, posted January 22, 2017, available at <http://www.prc.gov/mail-classification-schedule>, 1602.3 Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1, at 202-203.

² PRC Order No. 2148, Order Granting, in Part, Motion for Partial Reconsideration of Order No. 1864 and Modifying, in Part, Order No. 1864, Docket No. R2013-9, August 11, 2014.

functionally equivalent to the agreement with China Post Group (China Post) filed in Docket No. R2010-6 (“the China Post 2010 Agreement”). The Commission reached the same conclusion with respect to the currently effective bilateral agreement with Hongkong Post (the Hongkong Post 2015 Agreement),³ and the Commission should apply the same rationale in reviewing and approving the instant Hongkong Post 2017 Agreement. Accordingly, the Hongkong Post 2017 Agreement should be included within the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product.

In accordance with 39 C.F.R. § 3010.41, the Postal Service is required to provide public notice no later than 45 days prior to the intended implementation date, and to transmit notice to the Commission no later than 45 days prior to the intended implementation date of a negotiated service agreement. To satisfy this requirement, the Postal Service is filing the Hongkong Post 2017 Agreement with the Commission no later than 45 days before the intended effective date of the Hongkong Post 2017 Agreement, which is April 1, 2017.

Attachment 1 to this Notice is the Postal Service’s application for non-public treatment of these materials. A redacted copy of the Hongkong Post 2017 Agreement is included in the public version of this filing as Attachment 2. A redacted version of the supporting financial documentation is included with this filing as a separate Excel file.

³ PRC Order No. 2717, Order Approving Additional Inbound Market Dominant Multi-Service Agreement with Foreign Postal Operators 1 Negotiated Service Agreement (with Hongkong Post), Docket No. R2015-5, September 17, 2015, at 9.

The full unredacted text of the Hongkong Post 2017 Agreement and the unredacted supporting financial documentation establishing compliance are being filed separately under seal with the Commission.

I. Notice of Agreement and Rate Adjustment

A. Satisfaction of the Criteria under Part 3010, Subpart D of the Rules of Practice and Procedure

The Postal Service provides the following answers, descriptions, and affirmations in response to the criteria for contents of a notice in support of a negotiated service agreement, as provided in 39 C.F.R. § 3010.42. This statement provides support for the implementation of the inbound market dominant Hongkong Post 2017 Agreement and the establishment of the rates offered therein. The discussion that follows concerns only the inbound market-dominant rates and related sections of the Hongkong Post 2017 Agreement. The inbound competitive rates in the Hongkong Post 2017 Agreement will be filed with the Commission in a separate docket.

Pursuant to 39 C.F.R. § 3010.42, this Notice includes below:

- (a) A copy of the negotiated service agreement;*
- (b) The planned effective date(s) of the planned rates;*
- (c) A representation or evidence that public notice of the planned rate adjustments has been issued or will be issued at least 45 days before the effective date(s) for the planned rates;*
- (d) The identity of a responsible Postal Service official who will be available to provide prompt responses to requests for clarification from the Commission; [and]*
- (e) A statement identifying all parties to the agreement and a description clearly explaining the operative components of the agreement[.]*

As noted, a redacted copy of the Hongkong Post 2017 Agreement is being filed as Attachment 2 to this Notice, and an unredacted copy of the Agreement is being filed

under seal. The Hongkong Post 2017 Agreement's inbound market dominant rates are planned to become effective on April 1, 2017. Public notice of these rates is being given through this Notice (which is publicly posted on the Commission's website) at least 45 days before the effective date. Ms. Teresa Yeager, General Manager, Asia Pacific Business Development, Global Business Solutions, United States Postal Service, will be available to provide prompt responses to requests for clarification from the Commission. As with the Hongkong Post 2015 Agreement, which was the subject of Docket No. R2015-5, the parties to the Hongkong Post 2017 Agreement are the United States Postal Service and Hongkong Post, the designated operators of the United States of America and Hong Kong, respectively. This Hongkong Post 2017 Agreement, like the Hongkong Post 2015 Agreement, includes negotiated inbound market dominant rates for certain inbound small packets with delivery scanning.

Pursuant to 39 C.F.R § 3010.42(f), this Notice includes below:

(f) Details regarding the expected improvements in the net financial position or operations of the Postal Service. . . . The projection of change in net financial position as a result of the agreement shall include for each year of the agreement:

- (1) The estimated mailer-specific costs, volumes, and revenues of the Postal Service absent the implementation of the negotiated service agreement;*
- (2) The estimated mailer-specific costs, volumes, and revenues of the Postal Service which result from implementation of the negotiated service agreement;*
- (3) An analysis of the effects of the negotiated service agreement on the contribution to institutional costs from mailers not party to the agreement; [and]*
- (4) If mailer-specific costs are not available, the source and derivation of the costs that are used shall be provided, together with a discussion of the currency and reliability of those costs and their suitability as a proxy for the mailer-specific costs[.]*

The Postal Service is providing information about expected financial improvements, costs, volumes, and revenues in the financial workpapers that it is filing under seal with this Notice. As the Commission has directed,⁴ these financial workpapers supporting cost coverage use the respective 2017 and 2018 UPU terminal dues rates as the default rates that Hongkong Post would otherwise pay during the term of the Hongkong Post 2017 Agreement in the absence of this agreement.

Pursuant to 39 C.F.R. §3010.42(g), this Notice includes below:

(g) An identification of each component of the agreement expected to enhance the performance of mail preparation, processing, transportation or other functions in each year of the agreement, and a discussion of the nature and expected impact of each such enhancement[.]

For the Hongkong Post 2017 Agreement, operational and other improvements include:

- Revised rates and terms for small packets with delivery scanning;
- Advance electronic customs data requirements;
- Improved business settlement processes between the parties; and
- Sortation and induction requirements.

These improvements should enhance the performance of mail preparation, inbound customs security and contraband screening, processing, transportation, and other functions related to the delivery services provided for inbound small packets with delivery scanning items under the Hongkong Post 2017 Agreement.

Pursuant to 39 C.F.R. § 3010.42(h), this Notice includes below:

⁴ PRC Order No. 2717, at 8.

(h) Details regarding any and all actions (performed or to be performed) to assure that the agreement will not result in unreasonable harm to the marketplace[.]

The Hongkong Post 2017 Agreement will not result in unreasonable harm to the marketplace. Hongkong Post is a designated operator as that term is used in the Universal Postal Convention. Designated operators ordinarily compensate each other for the delivery of letter post (including small packets) in accordance with terminal dues at rates set by the UPU, unless two (or more) designated operators negotiate and conclude a bilateral (or multilateral) contract like this one. For inbound mail to the United States, designated operators are subject to the UPU's terminal dues, and therefore no other parties would be in a position to negotiate over a bilateral concerning such terms for letter post between Hong Kong and the United States to supersede terminal dues. Further, Hongkong Post is the only entity in a position to avail itself of an agreement with the Postal Service of this type. The Postal Service is unaware of any private entity that would be able to serve the United States market for small packets with delivery scanning from Hong Kong on the terms contemplated in the Hongkong Post 2017 Agreement. Moreover, this agreement will increase remuneration for inbound packets from Hong Kong over default UPU terminal dues. Thus, the Postal Service submits that the Hongkong Post 2017 Agreement will not pose competitive harm to the marketplace.⁵

Pursuant to 39 C.F.R. § 3010.42(i), this Notice includes below:

(i) Such other information as the Postal Service believes will assist the Commission to issue a timely determination of whether the requested changes are consistent with applicable statutory policies.

⁵ This does not imply, however, that there is an absence of competition in this market. The market is liberalized to some degree, particularly for bulk business letters and heavier weight letter post.

In this docket, the Postal Service is presenting only those parts of the Hongkong Post 2017 Agreement that concern delivery of inbound small packets with delivery scanning in the United States that are tendered by a foreign postal operator, i.e., negotiated rates for an inbound market dominant product. The rates paid by the Postal Service to Hongkong Post for outbound delivery of the Postal Service's products in Hong Kong are not presented to the Commission, because those rates represent supplier costs to the Postal Service, akin to an agreement to purchase trucking services from highway contractors or air transportation from air carriers. Those rates are built into the prices that the Postal Service charges its mailing customers for outbound products, which are the subject of a different regulatory filing.

B. Data Collection Plan

Under 39 C.F.R. § 3010.43, the Postal Service must include with its notice of agreement “a detailed plan for providing data or information on actual experience under the agreement sufficient to allow evaluation of whether the negotiated service agreement operates in compliance with 39 U.S.C. [§] 3622(c)(10).”⁶ The Postal Service intends to report information on the Hongkong Post 2017 Agreement through the Annual Compliance Report. The Postal Service will continue to cooperate with the Commission to provide any necessary information about mail flows from Hongkong Post during the annual compliance review process. Therefore, the Postal Service proposes that no special data collection plan be created for the Hongkong Post 2017 Agreement. Furthermore, with respect to performance measurement, this is a negotiated service agreement that covers “merely a grouping of other products already

⁶ 39 C.F.R. § 3010.43(a).

being measured.”⁷ The Postal Service respectfully notes that the Hongkong Post 2017 Agreement, if included in the requested product grouping in the MCS, is excepted from separate reporting under 39 C.F.R. § 3055.3(a)(3) by virtue of Commission Order No. 996. That Order granted a standing exception for all agreements permitted to be filed in the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product grouping.⁸

C. Statutory Criteria

Under 39 U.S.C. § 3622(c)(10), the criteria for the Commission’s review are whether the agreement (1) improves the net financial position of the Postal Service or enhances the performance of operational functions, (2) will not cause unreasonable harm to the marketplace, and (3) will be available on public and reasonable terms to similarly situated mailers. The first two criteria have been addressed in Part I.A. above. With respect to the third criterion, there are no entities that are similarly situated to Hongkong Post in their ability to tender the broad-based small packet flows from Hongkong under similar operational conditions and UPU documentation. Therefore, the Postal Service finds it difficult to conceive of a “similarly situated mailer” to which it could make a similar agreement available; accordingly, the Postal Service views this criterion as inapplicable in this instance.⁹ In Order No. 2717, the Commission

⁷ PRC Order No. 292, Notice of Proposed Rulemaking on Periodic Reporting of Service Performance Measurements and Customer Satisfaction, Docket No. RM2009-11, September 2, 2009, at 15.

⁸ See PRC Order No. 996, Order Concerning an Additional Inbound Market Dominant Multi-Service Agreement with Foreign Postal Operators 1 Negotiated Service Agreement, Docket No. R2012-2, November 23, 2011, at 7.

⁹ See PRC Order No. 163, Order Concerning Bilateral Agreement with Canada Post for Inbound Market Dominant Services, Docket Nos. MC2009-7 and R2009-1, December 31, 2008, at 9-10 (“Given its narrow characterization of the underlying Agreement, the Postal Service’s position [as to ‘similarly situated mailers’] is correct. For purposes of this proceeding, the Commission concludes that it would be largely an academic exercise to consider whether a broader characterization should be employed.”).

concurred “that there are no entities similarly situated to Hongkong Post.”¹⁰ Because all of the criteria set forth in 39 U.S.C. § 3622(c)(10) have been met, the Postal Service respectfully urges the Commission to act promptly by allowing the inbound market-dominant rates in the Hongkong Post 2017 Agreement to be implemented effective April 1, 2017 under 39 C.F.R. § 3010.40, as requested.

II. Functional Equivalence

In Order No. 2148, the Commission designated, “for purposes of functional equivalence comparisons in future market dominant FPO 1 [Foreign Postal Operators 1] filings,” the TNT Agreement filed in Docket No. R2010-5, and the China Post 2010 Agreement filed in Docket No. R2010-6, as alternative baseline agreements, with selection of the baseline agreement in each filing at the option of the Postal Service.¹¹

The Hongkong Post 2017 Agreement that is the subject of this docket is functionally equivalent to the China Post 2010 Agreement filed in Docket No. R2010-6. The terms of the Hongkong Post 2017 Agreement fit within the MCS language for Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1, as revised and updated in the most recent draft working draft of the MCS available on the Commission website.¹² Therefore, the Hongkong Post 2017 Agreement and the China Post 2010 Agreement conform to a common description.

The Hongkong Post 2017 Agreement and the China Post 2010 Agreement are constructed from a similar template and contain many similar terms and conditions. The

¹⁰ PRC Order No. 2717, at 8-9.

¹¹ PRC Order No. 2148, Order Granting, in part, Motion for Partial Reconsideration of Order No. 1864 and Modifying, in part, Order No. 1864, Docket No. R2013-9, August 11, 2014, at 8.

¹² See PRC, (draft) Mail Classification Schedule, posted January 15, 2015 (with revisions through October 31, 2016), available at <http://www.prc.gov/mail-classification-schedule>, 1602.3 Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1, at 199-200.

two agreements include rates for small packet with delivery scanning tendered to the Postal Service from each respective foreign postal operator's territory. Each contract is with a foreign postal operator.

Therefore, the Postal Service submits that the Hongkong Post 2017 Agreement that is the subject of this docket is functionally equivalent to the China Post 2010 Agreement, and should be added to the market dominant product list within the same Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product listing. There are, however, differences between the Hongkong Post 2017 Agreement and the China Post 2010 Agreement. The Postal Service provides the following comparison of the sections of the Hongkong Post 2017 Agreement and the China Post 2010 Agreement that concern inbound rates. Differences between the two agreements concerning inbound rates include the following.

- The Hongkong Post 2017 Agreement and the China Post 2010 Agreement are with different foreign postal operators. As a result, the name and address of the foreign postal operator with whom the agreement is made is different in the title, first paragraph, the article concerning notice (Article 15), signature block and throughout the Hongkong Post 2017 Agreement.
- Article 1, Purpose of the Agreement, of the Hongkong Post 2017 Agreement differs from Article 1 of the China Post 2010 Agreement.
- The text of Article 2, Oversight and Effective Date, Article 3, Conditions Precedent, and article 6, Monetary Transactions, of the two agreements is slightly different.

- Article 8, Termination, Article 9, Dispute Resolution; Article 10, Construction, Article 11, Indemnification and Liability; and Article 13, Confidentiality Requirements, are different as a result of negotiations between the Parties.
- The Postal Service contact information in Article 15 has been updated.
- Article 17, Legal Status of this Agreement, includes an additional sentence at the end of the article.
- The text of Article 18, Amendment, of the two agreements is slightly different.
- The text of Article 19, Assignment, is different as a result of negotiations between the Parties.
- The text of Article 20, Applicability of Other Laws, is different in that the Hongkong Post 2017 Agreement does not include paragraph 3 because similar language appears in Article 13, Confidentiality.
- The text of Article 21, Entire Agreement, and Article 22, Term, is different.
- The Hongkong Post 2017 Agreement includes a revised Article 23 concerning Intellectual Property, Co-Branding, and Licensing.
- The text of Article 24, Survival, differs slightly in the two agreements.
- The inbound rates and the explanatory terms included in Annex 1 of the Hongkong Post 2017 Agreement are different.
- Annex 2 of the Hongkong Post 2017 Agreement includes revised paragraphs concerning package specific preparation requirements, receptacle preparation requirements, dispatch preparation requirements, and financial requirements. The text of the paragraphs regarding return service, customer inquiries and compensation and service standards also differs slightly

- The example of a small packet with delivery scanning label in Annex 3 is different.
- Annex 4 includes slightly different text and updated links.
- Annex 5 of the Hongkong Post 2017 Agreement is different, and includes operational and transportation terms.
- Annex 7 is a new annex that sets forth the business rules for settlement.

None of these differences affect the cost or market characteristics of the agreements. Therefore, the differences should not prevent the Commission from reaching the conclusion that the Hongkong Post 2017 Agreement is functionally equivalent to the China Post 2010 Agreement.

III. Application for Non-Public Treatment

The Postal Service maintains that certain portions of the Hongkong Post 2017 Agreement and related financial information should remain confidential. In accordance with 39 C.F.R. § 3007.21, the Postal Service files as Attachment 1 to this Request its application for non- public treatment of materials filed under seal. A full discussion of the required elements of the application appears in Attachment 1.

IV. Conclusion

For the reasons discussed, the Postal Service believes that the Hongkong Post 2017 Agreement should be added to the product listing for Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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ATTACHMENT 1

UNITED STATES POSTAL SERVICE APPLICATION FOR NON- PUBLIC TREATMENT OF MATERIALS

In accordance with 39 C.F.R. § 3007.21 and Order No. 225,¹ the United States Postal Service (“Postal Service”) applies for non-public treatment of certain materials filed with the Commission in this docket. The materials pertain to the bilateral agreement between Hongkong Post and the United States Postal Service filed in this proceeding (Agreement). The Agreement and supporting documents establishing compliance are being filed separately under seal with the Commission. A redacted copy of the agreement is filed with the Notice as Attachment 2. In addition, a redacted version of the supporting financial documentation is included with this public filing as a separate Excel file.

The Postal Service hereby furnishes below the justification required by 39 C.F.R. § 3007.21(c) for this application.

(1) The rationale for claiming that the materials are non-public, including the specific statutory basis for the claim, and a statement justifying application of the provision(s);

The materials designated as non-public consist of information of a commercial nature that would not be publicly disclosed under good business practice. In the Postal Service’s view, this information would be exempt from mandatory disclosure pursuant to 39 U.S.C. § 410(c)(2) and 5 U.S.C. § 552(b)(3) and (4).² Because the portions of the materials that the Postal Service seeks to

¹ PRC Order No. 225, Final Rule Establishing Appropriate Confidentiality Procedures, Docket No. RM2008-1, June 19, 2009.

² In appropriate circumstances, the Commission may determine the appropriate level of confidentiality to be afforded to such information after weighing the nature and extent of the likely commercial injury to the Postal Service against the public interest in maintaining the financial transparency of a government establishment

file under seal fall within the scope of information not required to be publicly disclosed, the Postal Service asks the Commission to support its determination that these materials are exempt from public disclosure and to grant its application for their non-public treatment.

(2) Identification, including name, phone number, and e-mail address for any third party who is known to have a proprietary interest in the materials, or if such an identification is sensitive, contact information for a Postal Service employee who shall provide notice to that third party;

In the case of this Agreement and supporting documents, the Postal Service believes that the only third party with a proprietary interest in the materials is the foreign postal operator with which the contract is made. Through text in the agreement, the Postal Service has already informed the postal operator, in compliance with 39 C.F.R. § 3007.20(b), of the nature and scope of this filing and the operator's ability to address its confidentiality concerns directly with the Commission. Due to the sensitive nature of the Postal Service's rate relationship with the affected foreign postal operator, the Postal Service proposes that a designated Postal Service employee serve as the point of contact for any notices concerning the Agreement. The Postal Service identifies as an appropriate contact person Ms. Teresa Yeager, General Manager, Asia Pacific Business Development, Global Business Solutions, United States Postal Service. Ms.

competing in commercial markets. 39 U.S.C. §504(g)(3)(A). The Commission has indicated that "likely commercial injury" should be construed broadly to encompass other types of injury, such as harms to privacy, deliberative process, or law enforcement interests. PRC Order No. 194, Second Notice of Proposed Rulemaking to Establish a Procedure for According Appropriate Confidentiality, Docket No. RM2008-1, Mar. 20, 2009, at 11.

Yeager's phone number is (202) 268-2925, and her email address is
teresa.y.yeager@usps.gov.³

(3) A description of the materials claimed to be non-public in a manner that, without revealing the materials at issue, would allow a person to thoroughly evaluate the basis for the claim that they are non-public;

In connection with its Notice filed in this docket, the Postal Service included the Agreement and associated financial workpapers associated with that agreement. These materials were filed under seal, with redacted copies filed publicly, after notice to the affected postal operator. The Postal Service maintains that the redacted portions of the agreement and related financial information should remain confidential.

With regard to the agreement filed in this docket, the redactions withhold the actual prices being offered between the parties under the agreement, certain negotiated terms, such as business rules concerning payment and settlement procedures, as well as information concerning the outbound product that is the subject of Annex 6. The redactions applied to the financial workpapers protect commercially sensitive information such as underlying costs and assumptions, negotiated pricing, and cost coverage projections.

(4) Particular identification of the nature and extent of commercial harm alleged and the likelihood of such harm;

³ The Postal Service acknowledges that 39 C.F.R. § 3007.21(c)(2) appears to contemplate only situations where a third party's identification is "sensitive" as permitting the designation of a Postal Service employee who shall act as an intermediary for notice purposes. To the extent that the Postal Service's filing might be construed as beyond the scope of the Commission's rules, the Postal Service respectfully requests a waiver to designate a Postal Service employee as the contact person under these circumstances, for the reasons provided in the text above.

If the portions of the agreement that the Postal Service determined to be protected from disclosure due to their commercially sensitive nature were to be disclosed publicly, the Postal Service considers that it is quite likely that it would suffer commercial harm. Pricing and other negotiated terms are commercially sensitive and would not be disclosed under good business practices. Other foreign postal operators could use the information to their advantage in negotiating the terms of their own agreements with the Postal Service. Competitors could also use the information to assess the offers made by the Postal Service to foreign postal operators or other customers for any possible comparative vulnerabilities and focus sales and marketing efforts on those areas, to the detriment of the Postal Service. The Postal Service considers these to be highly probable outcomes that would result from public disclosure of the redacted material.

The financial workpapers include specific information such as costs, assumptions used in pricing decisions, the negotiated prices themselves, projections of variables, and contingency rates included to account for market fluctuations and exchange risks. All of this information is highly confidential in the business world. If this information were made public, the Postal Service's competitors would have the advantage of being able to determine the floor for Postal Service pricing, in light of statutory, regulatory, or policy constraints. Thus, competitors would be able to take advantage of the information to offer lower pricing to postal customers, while subsidizing any losses with profits from other customers. Eventually, this could freeze the Postal Service out of the relevant inbound delivery services markets. Given that these spreadsheets are

filed in their native format, there is a reasonable likelihood that the information could be used in this way.

Potential customers could also deduce from the rates provided in the agreement or from the information in the workpapers whether additional margin for net contribution exists. The settlement charges between the Postal Service and the foreign postal operator constitute costs underlying the postal services offered to each postal operator's customers, and disclosure of this cost basis would upset the balance of Postal Service negotiations with contract customers by allowing them to negotiate, rightly or wrongly, on the basis of the Postal Service's perceived supplier costs. From this information, each foreign postal operator or customer could also attempt to negotiate ever-decreasing prices, such that the Postal Service's ability to negotiate competitive yet financially sound rates would be compromised. Even the foreign postal operator involved in the agreement at issue in this docket could use the information in the workpapers in an attempt to renegotiate the rates in its instrument by threatening to terminate any currently agreed-upon terms.

Price information in the agreement and financial spreadsheets also consists of sensitive commercial information of the foreign postal operator. Disclosure of such information could be used by competitors of the foreign postal operator to assess the foreign postal operator's underlying costs, and thereby develop a benchmark for the development of a competitive alternative. The foreign postal operator would also be exposed to the same risks as the Postal Service in customer negotiations based on the disclosure of its supplier costs.

(5) At least one specific hypothetical, illustrative example of each alleged harm;

Harm: Public disclosure of the prices in the Agreement, as well as any negotiated terms, would provide foreign postal operators or other potential customers extraordinary negotiating power to extract lower rates from the Postal Service.

Hypothetical: The negotiated prices are disclosed publicly on the Postal Regulatory Commission's website. Another postal operator sees the price and determines that there may be some additional profit margin below the rates provided to either operator. The other postal operator then uses that publicly available rate information to insist that it must receive lower rates than those the Postal Service has offered it.

Harm: Public disclosure of information in the financial workpapers would be used by competitors and customers to the detriment of the Postal Service.

Hypothetical: A competing delivery service obtains unredacted versions of the financial workpapers from the Postal Regulatory Commission's website. The competitor analyzes the workpapers to determine what the Postal Service would have to charge its customers in order to comply with business or legal considerations regarding cost coverage and contribution to institutional costs. The competing delivery service then sets its own rates, for products similar to what the Postal Service offers its customers, below that threshold and markets its purported ability to beat the Postal Service on price for international delivery services. By sustaining this below-market strategy for a relatively short period of time, the competitor, or all of the Postal Service's competitors acting in a likewise fashion, would freeze the Postal Service out of one or more relevant international delivery

markets. Even if the competing providers do not manage wholly to freeze out the Postal Service, they would significantly cut into the revenue streams upon which the Postal Service relies to finance provision of universal service.

Harm: Public disclosure of information in the financial workpapers would be used detrimentally by the foreign postal operator's competitors.

Hypothetical: A competing international delivery service obtains a copy of the unredacted version of the financial workpapers from the Postal Regulatory Commission's website. The competitor analyzes the workpapers to assess the foreign postal operator's underlying costs for the corresponding products. The competitor uses that information as a baseline to negotiate with U.S. or other companies to develop lower-cost alternatives.

(6) The extent of protection from public disclosure deemed to be necessary;

The Postal Service maintains that the redacted portions of the materials filed non-publicly should be withheld from persons involved in competitive decision-making in the relevant market for international delivery products (including both private sector integrators and foreign postal operators), as well as their consultants and attorneys. Additionally, the Postal Service believes that actual or potential customers of the Postal Service for this or similar products (including other postal operators) should not be provided access to the non- public materials. This includes the counter-party to the agreement with respect to all materials filed under seal, except for the text of the postal operator's agreement, to which that counter-party already has access.

(7) The length of time deemed necessary for the non-public materials to be protected from public disclosure with justification thereof; and

The Commission's regulations provide that non-public materials shall lose non-public status ten years after the date of filing with the Commission, unless the Commission or its authorized representative enters an order extending the duration of that status. 39 C.F.R. § 3007.30.

(8) Any other factors or reasons relevant to support the application.

None.

Conclusion

For the reasons discussed, the Postal Service respectfully requests that the Commission grant its application for non-public treatment of the identified materials.

HONGKONG POST – UNITED STATES POSTAL SERVICE BILATERAL AGREEMENT

This Agreement ("Agreement") is between the United States Postal Service ("USPS"), an independent establishment of the Executive Branch of the Government of the United States with offices at 475 L'Enfant Plaza, SW, Washington, DC 20260, and Hongkong Post ("Hongkong Post"), a government branch of the Hong Kong Special Administrative Region of People's Republic of China, and having a place of business at 4/F Hongkong Post Headquarters 2 Connaught Place, Central, Hong Kong. The USPS and Hongkong Post may be referred to individually as a "Party" and together as the "Parties."

INTRODUCTION

WHEREAS, the Parties desire to enter into a non-exclusive relationship whereby the Parties shall provide each other certain products and/or services pursuant to the terms and conditions contained herein;

WHEREAS, the Parties acknowledge and understand that the commencement of performance under this Agreement is subject to the approval of and/or non-objection by various entities with oversight responsibilities, which may include but not be limited to the USPS senior management, the USPS Governors, the USPS Board of Governors, and/or the U.S. Postal Regulatory Commission. Accordingly, Hongkong Post acknowledges and understands that the ability of the USPS to perform under this Agreement may not occur, and in this respect the provisions of Article 2 and 3 shall apply;

WHEREAS, in light of the aforementioned acknowledgements, the Parties desire to be bound by the terms of this Agreement, including the terms of Article 3 of this Agreement entitled "Conditions Precedent";

NOW, THEREFORE, in consideration of the mutual promises set forth below, the Parties hereby agree as follows:

Article 1: Purpose of the Agreement

The purposes of this Agreement are the following:

1. To foster the maintenance and further development of a mutually beneficial relationship on behalf of the Parties' respective customers;
2. To set out the rates, principles, and general terms and conditions that shall apply to the exchange of certain international products and services between the Parties; and
3. To set out the bilateral rates that will apply to the exchange of certain letter class, parcel, and Express Mail Service (EMS) products, as further detailed and set forth in the Annexes to this Agreement.

Article 2: Oversight and Effective Date

The terms and pricing set forth under this Agreement require approval from various entities that have oversight responsibilities for the USPS as set out in Article 3 below. Upon execution of this Agreement, the USPS shall seek such approval. This Agreement shall come into effect upon all such approvals having been obtained by USPS and notification to Hongkong Post by the USPS that all such approvals have been obtained. The date of notification shall be "the Effective Date," unless an alternative date is proposed in the USPS's notification and agreed to by Hongkong Post in a return communication, in which case that alternative date shall be the Effective Date.

Article 3: Conditions Precedent

The Parties acknowledge and understand that all obligations of the USPS under this Agreement shall be contingent on the USPS receiving approvals from, and/or non-objection by (hereinafter "Conditions Precedent"), one or more internal and external bodies that have oversight responsibilities. Conditions Precedent may include but are not limited to: approvals or, if applicable, non-objection, from USPS senior management, the USPS Governors, the USPS Board of Governors, and the U.S. Postal Regulatory Commission. The Parties acknowledge that the Agreement might not be approved by such bodies. Until such time that all Conditions Precedent are fulfilled that are necessary to provide the products or services contemplated under the Agreement, no obligation shall exist for the USPS or Hongkong Post and no benefit or rights granted through this Agreement shall inure to either Party unless and until the Effective Date occurs.

Article 4: Limitation on Liability and Costs

In the event that the Conditions Precedent are not fulfilled, the USPS and Hongkong Post shall have no liability, which shall include no obligation to pay costs associated with any action taken by Hongkong Post prior to the Effective Date of the Agreement. Further, in the event of termination of the Agreement or the failure of any Condition Precedent, neither Party shall be held liable for any damages including, without limitation, the following: actual damages; special damages; indirect damages; incidental damages; punitive damages; consequential damages; or any other damages, which shall include but not be limited to damages for loss of business profits; business interruption; any other loss; and/or any cost incurred by either Party attributable to such non-approval such as attorney's fees.

Article 5: Price Changes; No Effect on Service Terms

For each of the services with specific terms and conditions set forth in an attachment to this Agreement, any adjustments to the rates for the services shall be subject to the terms and conditions set forth in the Annexes of this Agreement.

Article 6: Monetary Transactions

1. Each Party shall bear the costs and retain the revenues for any work performed by itself and by agents or contractors on its behalf, unless the Parties agree to other arrangements to allocate costs or revenues and those arrangements are incorporated in an Amendment to this Agreement. Any such Amendment shall be governed by Article 18 below.
2. All taxes and duties are the sole responsibility of the Party to whom they are duly assessed and shall not be charged to any other Party in any form unless the Parties otherwise provide in an Amendment to this Agreement. Any such Amendment shall be governed by Article 18 below.

Article 7: Customs Inspection

USPS bears no responsibility for the disposition of items in the custody of U.S. Customs & Border Protection. Further, Hongkong Post understands that all contents of any item, including items that are treated as sealed mail under USPS regulations, are subject to inbound search and inspection by U.S. Customs & Border Protection, regardless of when the USPS elects to conduct verification and acceptance of any inbound items.

Article 8: Termination

1. Either Party may terminate this Agreement without cause upon 30 days advance written notice to be served on the other Party, with such termination effective as of the end of the calendar month in which the 30-day notice period expires. The right to terminate the Agreement for good cause remains unaffected.

2. In the event of termination of the Agreement under this Article, the Parties shall be liable to make final settlement of all amounts owing as of the effective date of the termination. Each Party shall bear its own costs in the event of termination. All further rights and remedies shall remain unaffected.
3. In the event of termination, and as of the effective date of termination, [REDACTED]
[REDACTED]
[REDACTED] neither Party shall be liable to the other for any damages including, without limitation, actual, special, indirect, incidental, punitive, consequential or any other damages (including, without limitation, damages for loss of business profits, business interruption or any other loss) for any reason incurred as a result of the [REDACTED].

Article 9: Dispute Resolution

1. The Parties intend to resolve all controversies under this Agreement informally through correspondence, oral communications, and informal meetings.
2. If the method described in the above paragraph proves insufficient to resolve a controversy, the Parties agree that the signatories to this Agreement, or their replacements, shall provide a written description of the controversy to the other Party and a suggested outcome. They shall review the information provided and shall attempt in good faith to come to an agreement on the issue through correspondence, oral communications, or informal meetings.
3. If the methods described in the above paragraph prove insufficient to resolve a controversy, the Parties agree to refer that controversy to mediation, which shall consist of an informal, nonbinding conference or conferences between the Parties and the mediator, who shall perform mediation responsibilities in the English language. The mediator shall be selected as mutually agreed by the Parties.
4. With the exception of controversies concerning cost or revenue liability, mediation shall provide the sole means for addressing controversies related to this Agreement. If mediation does not resolve such a controversy, the Parties may exercise their right to terminate.
5. For controversies related to cost or revenue liability, Hongkong Post and the USPS shall first refer the matter to mediation as discussed in the above paragraphs. If mediation does not resolve such a controversy, an action relating to cost or revenue liability may be instituted and maintained only in the United States District Court for the District of Columbia. The Parties each irrevocably submit to the exclusive personal jurisdiction of the United States District Court for the District of Columbia and waive any objection to the laying of venue in that court, to the convenience of that forum, and to that court's personal jurisdiction over the Parties, including any arguments about sovereign immunity.
6. Notwithstanding the provisions of this Article 9, in the event of conflict or inconsistency between the provisions of this Article 9 and Article 11, paragraph 1, the provisions of Article 11, paragraph 1 shall prevail.

Article 10: Construction

Except as otherwise provided in this Agreement, this Agreement shall be governed by and construed in accordance with U.S. Federal law. To the extent this Agreement is not covered by the Federal law of the United States, the law of the state of New York shall apply.

Article 11: Indemnification and Liability

1. The Parties acknowledge that aspects of liability or indemnification [REDACTED] in favor of third Parties not expressly governed by this Agreement are subject to the appropriate provisions of the Acts of the Universal Postal Union ("UPU") and any reservations the Parties have taken to those instruments.
2. In the event that an entity not party to this Agreement asserts claims against Hongkong Post or USPS that are attributable to the actions of the other Party to this Agreement and are not subject to the provisions of the UPU Acts, the latter Party shall indemnify the defending Party for, and hold the defending Party harmless from, any losses, damages or liabilities suffered by the defending Party as a result. In that instance, the indemnifying Party shall also reimburse the defending Party for all reasonable expenses incurred in connection with investigating, preparing for, or defending any such claim, whether in an administrative, regulatory or judicial proceeding, and whether or not the indemnifying Party is named in the proceeding.
3. Neither Party to this Agreement shall be liable to the other Party, nor shall they indemnify the other Party for any loss or damage including special, indirect, incidental, punitive, consequential or any other damages (including, without limitation, damages for loss of business profits, business interruption or any other loss) for any reason, except for the following:
 - a. liability and indemnification as described in Article 11, paragraph 1,
 - b. final settlement under Article 8, or
 - c. any actual damage or loss suffered by a Party as a result of a breach of this Agreement by the other Party.
4. Nothing in this Agreement shall be construed as an acknowledgment or concession regarding the validity of any claim or the entitlement of any Party to any amount of damages.

Article 12: Language

The official version of this Agreement, including all supporting documentation and correspondence, shall be in English. The English language shall be the controlling language for the purpose of interpreting this Agreement, and all correspondence between the Parties pertaining to this Agreement shall be in the English language. In the event of inconsistency between any terms of this Agreement, including its supporting documentation and correspondence, and any translation into another language, the English language meaning shall control.

Article 13: Confidentiality Requirements

1. The Parties consider the rate information included in this Agreement to be commercially sensitive information and agree that it should not be disclosed to third parties except as required by law. Hongkong Post shall treat as confidential and not disclose to third parties, absent express written consent by the USPS, any information related to this Agreement that is treated as non-public by the U.S. Postal Regulatory Commission ("Commission"). Except as required by U.S. law, USPS shall treat as confidential and not disclose to third parties, absent express written consent by Hongkong Post, any information related to this Agreement and proprietary to Hongkong Post that is treated as non-public by the U.S. Postal Regulatory Commission.
2. Hongkong Post acknowledges that United States law may require that this Agreement and supporting documentation be filed with the Commission in a docketed proceeding. In addition, Hongkong Post acknowledges that United States law may require that this Agreement be filed with the U.S. Department of State. Hongkong Post authorizes the USPS to determine the scope of information that must be made publicly available under the Commission's rules. Hongkong Post further understands that any unredacted portion of this Agreement or supporting documentation may be posted on the Commission's public website, www.prc.gov. In addition, the

USPS may file information in connection with this Agreement (including revenue, cost, or volume data) in other Commission dockets, including the Commission docket numbers for the Annual Compliance Report (ACR) for the USPS fiscal year(s) in which the Agreement is in effect. Each ACR docket has a distinct docket number, such as ACR201#, in which ACR201# signifies the USPS fiscal year to which the ACR pertains. Hongkong Post has the right, in accordance with the Commission's rules, to address its confidentiality concerns directly with the Commission. The procedure for making an application to the Commission for non-public treatment of materials believed to be protected from disclosure is found at Title 39, Code of Federal Regulations, Section 3007.22, on the Commission's website: www.prc.gov/Docs/63/63467/Order225.pdf. At Hongkong Post's request, the USPS shall notify Hongkong Post of the docket number of the Commission proceeding to establish the rates in this instrument under U.S. law, once that docket number has been assigned.

Article 14: Severability

If any of the provisions of this Agreement shall be held void or unenforceable, the other provisions shall survive and remain in full force and effect, subject only to either Party's unilateral right to terminate the Agreement.

Article 15: Notices

Any notice or other document to be given under this Agreement shall be in writing and addressed as set out below. Notices may be delivered by hand, email, or Express Mail Service.

To the USPS:

Teresa Yeager
General Manager
Business Development, Asia Pacific
United States Postal Service
475 L'Enfant Plaza, SW, Room 5821
Washington, DC 20260-0906
1-202-268-2925
teresa.y.yeager@usps.gov

To Hongkong Post:

[REDACTED]
[REDACTED]
[REDACTED]
Hongkong Post Headquarters
2 Connaught Place, Central
Hong Kong
[REDACTED]
[REDACTED]

Article 16: Force Majeure

Neither Party shall be liable for its failure to perform under the terms of this Agreement due to any contingency beyond its reasonable control, including acts of God, fires, floods, wars, sabotage, accidents, labor disputes or shortages, governmental laws, ordinances, rules and regulations, whether valid or invalid, court orders, whether valid or invalid, inability to obtain material, equipment, or transportation, and any other similar or different contingency.

Article 17: Legal Status of this Agreement

This Agreement constitutes a legally binding agreement on the part of each signatory hereto and does not bind the Parties' respective governments. The Parties acknowledge that this Agreement sets out the

terms and conditions of a negotiated contractual arrangement between the Parties and is not an agreement entered into or subject to international law. This Agreement does not involve the creation of a wholly-owned subsidiary of any Party or a joint venture company or partnership funded in any ratio by the Parties. The Parties do not intend that any agency or partnership relationship be created between any of them by this Agreement. Through this Agreement, the Parties do not create or designate any third-party beneficiaries.

Article 18: Amendment

This Agreement may be amended or extended only by mutual written agreement signed by authorized representatives of Hongkong Post and USPS (an "Amendment"). Neither a Party's acquiescence in any performance at variance to this Agreement nor a Party's failure to exercise any right or enforce any obligation shall be deemed an amendment to this Agreement. The Amendment may be contingent upon any and all necessary approvals by USPS senior management, the USPS Governors, the USPS Board of Governors, and/or the U.S. Postal Regulatory Commission. If such approvals are required, the Amendment shall not become effective until such time as all necessary approvals are obtained.

Article 19: Assignment

This Agreement may not be assigned in whole or in part by any Party without the prior written consent of the other Party.

Article 20: Applicability of Other Laws

1. The Parties acknowledge that this Agreement does not involve the USPS's acquisition of property or services and is not subject to the Contract Disputes Act (41 U.S.C. §§ 7101 et seq.).
2. The Parties recognize that performance under this Agreement may be subject to laws enacted or enforced by governmental entities and is contingent on each Party obtaining all consents, authorizations, orders, or approvals required under applicable law of policy to effectuate the Agreement.

Article 21: Entire Agreement

1. Except as otherwise provided in this Agreement, this Agreement, including all Annexes to this Agreement, shall constitute the entire agreement between the Parties concerning the exchange of international mail described herein.
2. Neither Hongkong Post nor the USPS is released from any remaining obligations arising under the Hongkong Post – United States Postal Service Letter Post Bilateral Agreement executed by Hongkong Post on July 30, 2015, and by the USPS on July 30, 2015, as amended by Modification One executed by Hongkong Post on November 16, 2016 and by the USPS on November 16, 2016.
3. Neither Hongkong Post nor the USPS is released from any obligations arising under the Hongkong Post – United States Postal Service Air Parcel and EMS Agreement executed by Hongkong Post on June 25, 2015, and by the USPS on June 25, 2015, as amended by Modification One executed by Hongkong Post on June 14, 2016, and by the USPS on June 14, 2016, and Modification Two executed by Hongkong Post on September 12, 2016, and by the USPS on September 14, 2016, and Modification Three executed by Hongkong Post on November 16, 2016 and by the USPS on November 16, 2016.
4. Neither Hongkong Post nor USPS is released from any obligations arising under the Licensing Agreement for the Use of USPS Trademarks and/or Logos on Packaging, Labels, and/or Marketing Materials by Entities outside the United States executed by Hongkong Post on September 20, 2011, and by the United States Postal Service on October 19, 2011.

5. [REDACTED]
6. With the exception of the agreements mentioned in Paragraphs 2, 3, 4, and 5 of this Article, or as otherwise indicated in this Agreement, any prior agreement, understanding, or representation of any kind pertaining to the subject matter of this Agreement and preceding the date of this Agreement shall not be binding upon either Party.
7. The Parties acknowledge that the provisions of the Universal Postal Convention and applicable regulations, including, but not limited to, provisions concerning weight and size of letter post, [REDACTED], apply except to the extent inconsistent with this Agreement.

Article 22: Term

1. The Parties intend that the effective date of the settlement rates for the products set forth in Annex 1 of this Agreement should be April 1, 2017.
2. The USPS shall notify Hongkong Post of the Effective Date of the Agreement within thirty (30) days after receiving the approval of the entities that have oversight responsibilities for the USPS. USPS shall have no obligation to notify Hongkong Post of the status of the approval process or of potential fulfillment of the approval process. The Agreement shall remain in effect until June 30, 2018, unless terminated sooner pursuant to Article 8. Prior to the expiration of this period, the Agreement shall be re-evaluated by both Parties on whether to extend the agreement for another year or otherwise modify the Agreement.

Article 23: Intellectual Property, Co-Branding, and Licensing

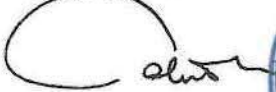
The Parties acknowledge that in the service of improving existing international products or developing new international products or services under this Agreement, such products or services may be enhanced through the use of co-branding or the use of each Party's trademarks, logos, or other intellectual property. In such instances, the Parties acknowledge and agree that any use shall be subject to separate written license agreements. The Parties acknowledge and agree that neither Party shall use the other Party's trademarks, logos, or other intellectual property until such time that a license for each specific such use has been executed by the Parties and that all laws and regulations required for such license's effectiveness have been followed. Hongkong Post acknowledges and agrees that USPS is the owner of the trademarks USPS®, USPS ePacket®, ePacket®, Commercial ePacket®, United States Postal Service®, and United States Postal Service® and Eagle Design, among other USPS marks (also known as the "USPS Marks"); that Hongkong Post may use the USPS Marks only with express written permission and under license from USPS; and that any uses by Hongkong Post of USPS Marks shall inure to the benefit of USPS. USPS acknowledges and agrees that Hongkong Post has the ability to sublicense the mark ePACKET, and, in the spirit of joint cooperation, the Parties agree to work on an agreement regarding the ePACKET mark separate and apart from this Agreement.

Article 24: Survival

The provisions of Articles 4, 6, 8, 9, 10, 11, 12, 13, 14, 15, 21, 22, and 23 shall survive the conclusion or termination of this Agreement, as well as any other terms insofar as they apply to the Parties' continuing obligations to one another under the articles listed above.

IN WITNESS WHEREOF, the Parties agree to be bound as of the latest date of signature to the terms and conditions of this Agreement.

Hongkong Post



Patrick Lin
Director (External Affairs)
Business



United States Postal Service



Cliff Rucker
Senior Vice President, Sales and Customer Relations

-7 FEB 2017

Date

2/9/17

Date

Annex 1: Settlement Rates

Rates

The rates below shall be in effect for the term of this Agreement, as set forth in Article 22. Changes in rates during the term of this Agreement shall be negotiated and agreed to in accordance with Article 18.

The provisions of Articles 3 and 4 shall apply to the USPS's ability to give effect to any agreed-upon rates, such that the agreement of the USPS to any change in rates is accordingly contingent upon any and all necessary approvals by USPS senior management, the USPS Governors, the USPS Board of Governors, and/or the U.S. Postal Regulatory Commission. The approval process may extend well beyond the originally intended effective date. If such approvals are required, the rates cannot become effective until such time as all necessary approvals are obtained.

Settlement rates listed in the tables included below are product stream rates per piece and per kilogram stated in Special Drawing Rights (SDRs) unless noted otherwise. Any changes to current specifications (i.e., sortation and preparation) must be agreed to in writing by both Parties as provided in Article 18 of this Agreement.

Products Hong Kong to USA in SDR			
Stream	Service Description	Proposed Settlement Charges (SDR / Piece)	Proposed Settlement Charges (SDR / Kg)
A, UD, BG	SMALL PACKET WITH DELIVERY SCANNING		

Products USA to Hong Kong in SDR			
Stream	Service Description	Proposed Settlement Charges (SDR / Piece)	Proposed Settlement Charges (SDR / Kg)

/1 A "Stream" is defined by Mail Category, Mail Subclass/Receptacle Subclass, and Receptacle Type. Mail Category "All" indicates mail streams A, B, and C.

/2 This Annex reflects all applicable rates between the Parties concerning the Streams listed in the rate table above as of the Effective Date. The UPU rates shall continue to apply to all mail streams that are not reflected in this rate table.

/4 Sortation shall occur in accordance with Annex 5 and as stated elsewhere in this Agreement.

Notes concerning Table of Settlement Rates above

* The above rates for small packet with delivery scanning are inclusive of any applicable air conveyance charges.

Specifications of Letter Post Product Categories and Formats

The rates for the stream categories above shall be based upon the following format and product definitions:

Small Packets with Delivery Scanning – Hong Kong to USA
Refer to Annexes 2 and 3 of this Agreement.



Annex 2: Hong Kong to United States Small Packets with Delivery Scanning (ePacket)

Package Specific Preparation Requirements

1. **Package Dimensions and Weight.** Each package shipped under this Agreement must conform to the minimum and maximum size and weight requirements specified in the UPU Letter Post Manual, including but not limited to UPU Articles RL 122 and RL 123, except as otherwise stated in this Agreement including in Annex 1.
2. **Package Contents.** Packages shall conform to the importation restrictions of the United States as set forth in the *Mailing Standards of the United States Postal Service*, International Mail Manual, section 710 ("U.S. Customs Information"), which can be accessed online at http://pe.usps.com/text/imm/immc7_001.htm; and in accordance with the United States country listing in the UPU's List of Prohibited Items, which can be accessed at the UPU website at <http://www.upu.int/en/activities/customs/prohibited-and-restricted-articles/cds-list-of-prohibited-and-restricted-articles.html>. Packages should also conform to USPS's regulations on Mailable Dangerous Goods as set forth in IMM section 135, which can be accessed online at http://pe.usps.com/text/imm/immc1_014.htm. USPS shall not be responsible for the contents or customs status of any packages imported under this Agreement. For packages seized or disposed of by U.S. Customs and Border Protection and not released, the sending post shall not be charged postage for those packages. For packages detained but eventually released, applicable postage shall apply. The sending post agrees to communicate these requirements to shippers as a condition of shipment.
3. **Package Labeling.** The bilaterally agreed upon, co-designed label shall be displayed on the outside of each small packet with delivery scanning (ePacket). Customers in Hong Kong shall use the HKP-certified software to print labels which shall include a barcode that meets the specifications set forth in UPU Letter Post regulations. The barcode shall utilize the LK prefix of the UPU S10 barcode construct. The sample label is presented in Annex 3. In addition, each item shall display a complete and accurate customs declaration.

Receptacle Preparation Requirements

1. **Separation from other products.** The Small Packet with Delivery Scanning (ePacket) product that is described in this Agreement shall be sorted in receptacles separate from other mail pieces. Other international products, including, but not limited to, other Letter Post products (such as Registered Mail), Express Mail Service (EMS), Air Parcels (Air CP), and direct entry packages, may not be commingled in receptacles containing Small Packet with Delivery Scanning (ePacket) items.
2. **Receptacle Identification.** Each receptacle shall contain a 29-character UPU barcode containing the bilaterally agreed-upon mail subclass code.
3. **Receptacle Routing.** To expedite the processing and delivery of these packages, the sending post may present receptacles to corresponding Offices of Exchange (OEs) per the routings outlined in Annex 5.

Dispatch Preparation Requirements

1. **Separation from other products.** The Small Packet with Delivery Scanning (ePacket) product that is described in this Agreement shall be dispatched separately from other mail pieces. Other international products, including but, not limited to, other Letter Post products, Express Mail Service (EMS), Air Parcels (Air CP), and direct entry packages, may not be commingled in dispatches containing Small Packet with Delivery Scanning (ePacket) items.

2. **Dispatch Identification.** Each dispatch shall contain the bilaterally agreed-upon mail subclass code and unique dispatch numbers, which shall not repeat within any settlement period.
3. **Dispatch Manifesting.** The Parties agree to provide ITMATT, PREDES, and EMSEVT data as set forth in Annex 5. The Parties agree to provide PREDES messaging for each dispatch, including the number of receptacles, total weight and number of pieces contained in each receptacle. The parties shall strive to provide accurate PREDES messaging of 100% of dispatched volume and transmit the PREDES in timely manner. Where deficiencies exist, the two sides shall agree to exchange data and correct deficiencies promptly.
4. **Sortation.** Each sortation of each item in each dispatch must be in accordance with the sortation requirements in Annex 5.

Financial Requirements

USPS and Hongkong Post shall settle Small Packet with Delivery Scanning (ePacket) volumes, and any other Letter Post volumes in accordance Annex 7.

Return Service, Customer Inquiries and Compensation

1. **Return Service.** Return service for undeliverable, refused, or missent packages shall be provided consistent with the current procedures for letter-post small packets.
2. **Customer Inquiries.** USPS will not accommodate customer inquiries made by customers in either Hong Kong or the United States through retail units, customer service hotlines, or other channels for Small Packets with Delivery Scanning (ePacket).
3. **Compensation.** USPS does not offer indemnity or insurance for Small Packages with Delivery Scanning (ePacket). Accordingly, unless the Parties agree otherwise in a separate written agreement, USPS shall have no such liability.

Service Standards



Annex 3: Co-Designed Label Sample

Below is a sample label for Small Packets with Delivery Scanning (ePacket).

F	 Hong Kong Post 香港郵政	 Ship	Airmail Postage Paid Hong Kong Post
UNITED STATES POSTAL SERVICE® ePacket™			
From: FOREIGN SENDER STREET ADDRESS CITY COUNTRY POSTAL CODE		 11111	
<small>Customs information available on attached CN22. USPS reserves the right to use barcode below for delivery point information.</small>			
TO:	US RECIPIENT NAME STREET ADDRESS SUITE/ APT NUMBER WASHINGTON DC 11111-1111		
USPS DELIVERY CONFIRMATION  XXXXXXXXXXXXXX			

Annex 4: Detailed Item Content Restrictions

All items mailed under this Agreement must conform to the mailability requirements of the USPS, as detailed in the International Mail Manual sections 135 and 710; the United States country listing in the UPU's List of Prohibited Items; and Domestic Mail Manual section 601. As of the execution date of this Agreement, these materials are available at the following websites, respectively:

http://pe.usps.com/text/imm/immc1_014.htm

http://pe.usps.com/text/imm/immc7_001.htm

<http://www.upu.int/en/activities/customs/prohibited-and-restricted-articles/cds-list-of-prohibited-and-restricted-articles.html>

<http://pe.usps.gov/text/dmm300/601.htm>

Annex 5: Terms for Operational and Transportation Initiatives

- A. The Parties agree that all inbound settlement rates agreed by the USPS and Hongkong Post are based on the following sortation and inductions by Hong Kong Post.

Based on the first 2-digits of the recipient postal code, Hongkong Post shall induct the corresponding items into the appropriate U.S. point of entry:

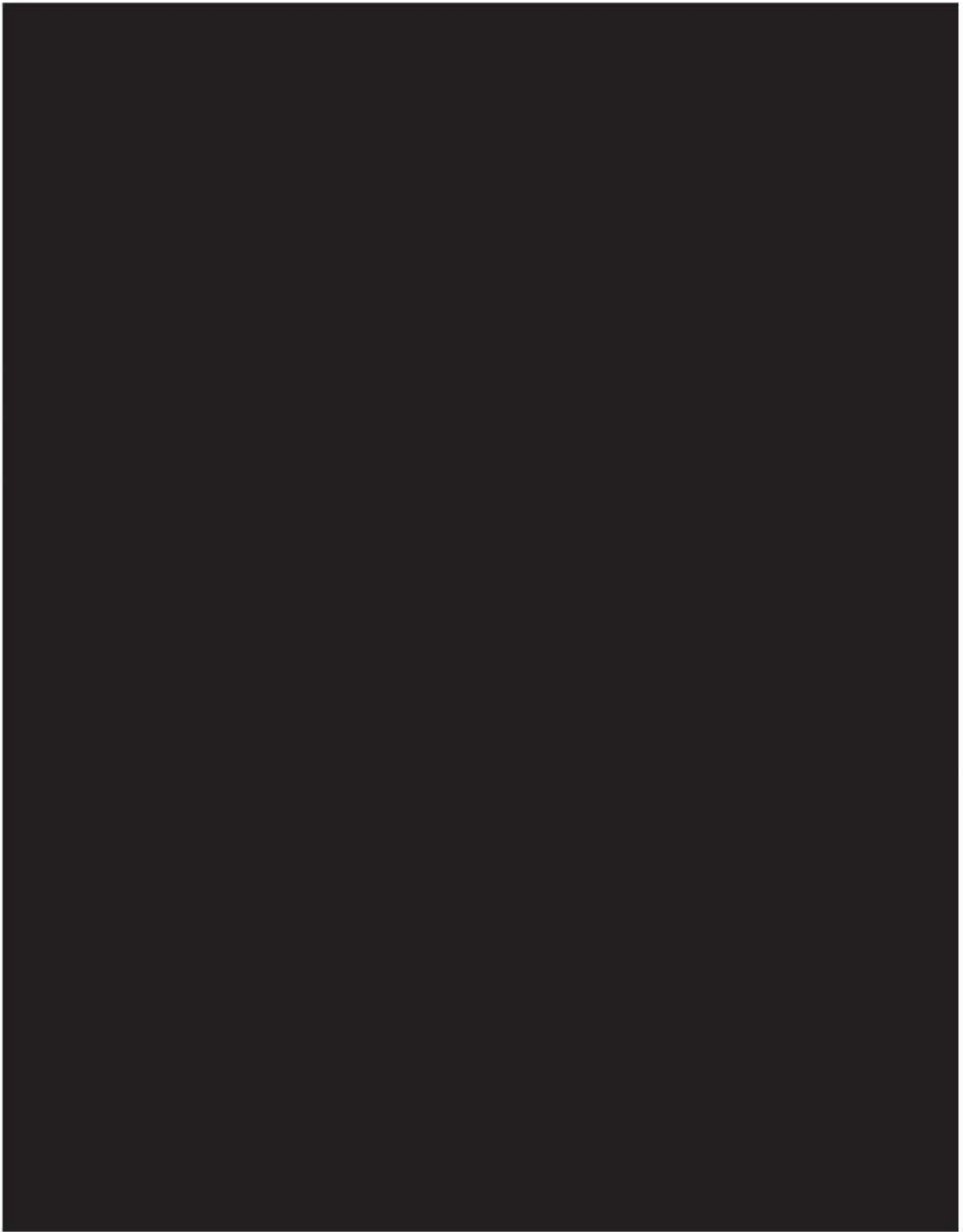
Nationwide for All OEs			
Destination Postal Code	Sort Key on label	U.S. Point of Entry	Requirement

For ePackets, based on the first 3-digits of the recipient postal code, Hong Kong Post shall provide an additional 26 sorts and the inductions into the corresponding U.S. points of entry. The detailed sortation scheme follows at the end of this Annex 5.

- B. For services for which this Agreement sets rates, the following requirements apply to all bidirectional flows originating and destinating in the territories served by both Parties under this Agreement:
- 1) Each Party shall generate and transmit, [REDACTED] ITMATT v.8 or higher;
 - 2) Each Party shall generate and transmit [REDACTED], PREDES with item to receptacle information and scheduled flight information;
 - 3) Each Party shall generate for access by the other Party, [REDACTED] EMSEVT v.3 with acceptance event and departure from origin office of exchange event scans.
- [REDACTED]

Detailed Sortation and Induction Scheme:







Receptacle Tags:

To facilitate sortation of incoming ePacket volume at US Offices of Exchange and expedite processing, a CN35 must be attached to each bag. The CN35 must contain the appropriate ADC Name and Sort Key for the contents and should be attached to the neck of the closed bag. In addition to the CN35, a red tag must accompany each sack.

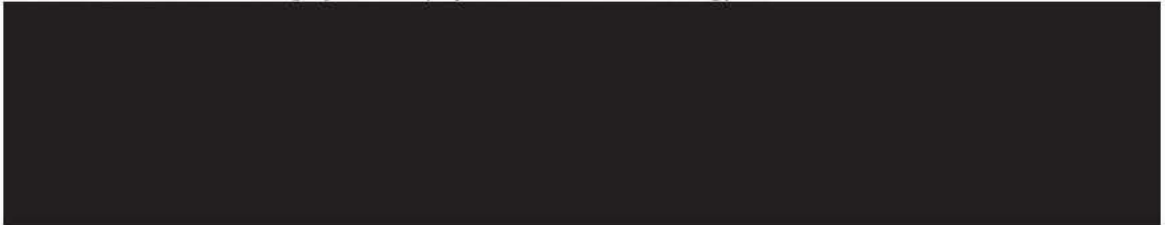






Annex 7: Business Rules for International Mail Settlement for the ePacket Mailstream

- Mail Streams. The ePacket mail stream consists of A UD BG. Small Packet with Delivery Scanning (ePacket) volumes will be identified and segregated from other Letter Post volume through the assignment of the "UD" mail subclass. Hongkong Post agrees to generate unique dispatch numbers throughout the course of the settlement period.
- Settlement Rate. The settlement rate per piece and per kilogram is set forth in Annex 1. At the end of each calendar quarter, the corresponding rate, as determined in this agreement, shall be applied to the corresponding ePacket volume, as identified by the mail subclass.
- Settlement Documents. USPS will issue a separate ePacket invoice for the ePacket mail stream.
- Settlement Timeline. USPS will prepare a quarterly ePacket invoice separate from the Terminal Dues invoice. The ePacket™ billing cycle and payment term methodology is;



- Exchange Rate. Payment will be made using the first published International Monetary Fund (IMF) exchange rate following the end of the quarter. For example, the payment exchange rate for the January-March quarter will be the rate published on 1 April (or the first business day of the month).
- Discrepancy Settlement Method:
 - Hongkong Post has 30 days to identify and communicate discrepancies after the day of the receipt of the invoice
 - USPS has 30 days to resolve the discrepancies after the day of receiving discrepancy notification from Hongkong Post
 - Payment is due 30 days after USPS resolves the discrepancy
 - If discrepancies are not completely resolved, payment for the non-disputed amount is due in 30 days, after the 30-day reconciliation period.